

**TESTIMONY OF DANIEL W. LUCAS, INSPECTOR GENERAL**

**BEFORE THE  
COUNCIL OF THE DISTRICT OF COLUMBIA  
COMMITTEE ON BUSINESS, CONSUMER AND  
REGULATORY AFFAIRS**

**PUBLIC ROUNDTABLE ON THE REVIEW OF THE OFFICE OF THE INSPECTOR  
GENERAL REPORT ENTITLED *AUDIT OF DISTRICT OF COLUMBIA AGENCIES’  
COMPLIANCE WITH SMALL BUSINESS ENTERPRISE EXPENDITURE GOALS***

**JULY 10, 2015**

---

GOOD MORNING CHAIRPERSON ORANGE AND MEMBERS OF THE COMMITTEE. I AM DANIEL W. LUCAS, INSPECTOR GENERAL FOR THE DISTRICT OF COLUMBIA. I AM PLEASED TO APPEAR BEFORE YOU TO PROVIDE TESTIMONY AT THIS PUBLIC ROUNDTABLE CONCERNING THE OFFICE OF THE INSPECTOR GENERAL’S (OIG) REPORT ON *AUDIT OF DISTRICT OF COLUMBIA AGENCIES’ COMPLIANCE WITH SMALL BUSINESS ENTERPRISE EXPENDITURE GOALS* [OIG REPORT No. 15-2-03EN].

I AM JOINED BY MR. FEKEDE GINDABA, ACTING DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITS, AND ADDITIONAL MEMBERS OF MY STAFF WHO WILL ASSIST ME IN ANSWERING QUESTIONS THAT THE COMMITTEE MAY HAVE.

**BACKGROUND**

MY OFFICE PERFORMED THIS AUDIT TO ADDRESS THE COMMITTEE CHAIR’S CONCERNS ABOUT THE SIGNIFICANT DECLINE IN DISTRICT AGENCIES’ EXPENDABLE BUDGETS, AS REPORTED BY THE DEPARTMENT OF SMALL AND

LOCAL BUSINESS DEVELOPMENT (DSLBD) DURING FISCAL YEAR (FY) 2014. ON DECEMBER 31, 2014, THE OIG BEGAN TO EXAMINE DSLBD'S PROCESSES FOR ESTABLISHING DISTRICT AGENCIES' EXPENDABLE BUDGETS AND DSLBD'S MONITORING OF AGENCY COMPLIANCE WITH APPLICABLE REPORTING REQUIREMENTS. AS YOU ARE AWARE, D.C. CODE § 2-218.41(a) REQUIRES DISTRICT AGENCIES TO EXERCISE THEIR CONTRACTING AND PROCUREMENT AUTHORITY SO AS TO MEET, ANNUALLY, THE GOAL OF PROCURING AND CONTRACTING 50 PERCENT OF THEIR EXPENDABLE BUDGETS TO SMALL BUSINESS ENTERPRISES (SBEs).

### **REPORT OVERVIEW**

OVERALL, OUR AUDIT FOUND THAT DSLBD COULD STRENGTHEN INTERNAL CONTROLS USED TO ESTABLISH DISTRICT AGENCIES' EXPENDABLE BUDGETS AND TO MONITOR DISTRICT AGENCIES' PERFORMANCE AGAINST SBE GOALS. BY ENHANCING INTERNAL CONTROLS, DSLBD COULD IMPROVE THE ACCURACY, COMPLETENESS, AND TIMELINESS OF THE REPORTED SBE EXPENDITURE GOALS. THESE IMPROVEMENTS WILL ULTIMATELY HELP DISTRICT AGENCIES WORK MORE EFFECTIVELY TO BETTER ACHIEVE THE OVERARCHING GOAL OF THE SBE PROGRAM, WHICH WILL RESULT IN DIRECTING MILLIONS OF DOLLARS IN DISTRICT CONTRACTS TO SUPPORT JOB CREATION AND CONTRIBUTE TO THE DISTRICT'S TAX-BASE.

OUR AUDIT FOUND SEVERAL ISSUES RELATED TO THE GOAL-SETTING AND MONITORING PROCESSES EXECUTED BY DSLBD. SPECIFICALLY, THERE WAS:

- INADEQUATE MANAGEMENT OVERSIGHT ON THE PART OF DSLBD TO MONITOR AGENCY COMPLIANCE;
- FAILURE BY DSLBD TO TIMELY ESTABLISH AGENCIES' EXPENDABLE BUDGETS, WHICH CAUSED A DECLINE IN AGENCY SBE SPENDING GOALS; AND,
- INADEQUATE INTERNAL CONTROLS OVER AGENCIES' EXPENDABLE BUDGET GOAL-SETTING PROCESS.

A HIGHLIGHT OF THE CAUSES, WHICH FACILITATED THE PREVIOUSLY DISCUSSED CONDITIONS, INCLUDED THE FOLLOWING:

- DSLBD HAD INADEQUATE AND INEFFECTIVE PROCESSES TO MONITOR DISTRICT AGENCY SBE SELF-REPORTING;
- DSLBD ONLY HAD ONE STAFF MEMBER FOR THE FIRST HALF OF FY 2014 TO OVERSEE THE GOAL-SETTING AND EXPENDITURE-REPORTING PROCESSES FOR MORE THAN 80 DISTRICT AGENCIES;
- DSLBD'S COMPLIANCE REPORTING APPLICATION WAS NOT LINKED TO THE DISTRICT'S SYSTEM OF ACCOUNTING AND REPORTING (SOAR); AND,
- DSLBD DID NOT IMPLEMENT ADEQUATE INTERNAL CONTROLS OVER THE GOAL-SETTING PROCESS, TO INCLUDE: (1) ESTABLISHING STANDARD OPERATING PROCEDURES; (2) SETTING CUT-OFF DATES FOR

ESTABLISHING SBE GOALS; AND (3) MANAGING ACCESS TO THE COMPLIANCE REPORTING APPLICATION.

DUE TO THESE WEAK INTERNAL CONTROLS, OUR AUDIT FOUND THAT:

- OVER 87 PERCENT (72 OUT OF 82) OF AGENCIES MONITORED DID NOT ACCURATELY REPORT THEIR SBE EXPENDITURES, WHICH RESULTED IN A NET UNDER REPORTING OF \$19.3 MILLION;
- AGENCY SBE SPENDING GOALS WERE REDUCED FROM \$779 MILLION IN THE THIRD QUARTER OF FY 2014, TO \$229 MILLION (A DIFFERENCE OF \$550 MILLION) IN THE FOURTH QUARTER OF FY 2014; AND,
- THERE WAS NO REASONABLE ASSURANCE THAT MATERIAL ERRORS WOULD BE PREVENTED OR DETECTED IN THE SBE GOAL-SETTING PROCESS.

### **AGENCY RESPONSE**

IN TOTAL, MY OFFICE MADE 18 RECOMMENDATIONS TO DSLBD TO ENHANCE AND STRENGTHEN INTERNAL CONTROLS. IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, THE OIG PROVIDED A DRAFT REPORT TO DSLBD IN ORDER TO SOLICIT THEIR COMMENTS CONCERNING THE AUDIT'S FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS. DSLBD AGREED WITH ALL OF OUR AUDIT'S RECOMMENDATIONS. THE DSLBD DIRECTOR NOTED IN HER RESPONSE THAT "MANY OF THE RECOMMENDATIONS [MADE IN THE DRAFT REPORT] HAVE ALREADY BEEN IMPLEMENTED AND/OR WILL TAKE EFFECT WITH THE START OF FY 2016 . . ."

## **CONCLUSION**

IN CONCLUSION CHAIRPERSON ORANGE AND MEMBERS OF THE COMMITTEE, IT IS MY VIEW THAT OUR AUDIT'S RECOMMENDATIONS WILL STRENGTHEN THE SBE PROGRAM'S INTERNAL CONTROLS. THESE CONTROLS, COUPLED WITH ENHANCED INTER-AGENCY COOPERATION, SHOULD RESULT IN INCREASED EFFICIENCIES AND EFFECTIVENESS WITHIN THE DISTRICT'S SBE PROGRAM. I WOULD LIKE TO THANK DIRECTOR HARVEY AND HER STAFF FOR THEIR COOPERATION AND SUPPORT DURING THIS AUDIT. THIS CONCLUDES MY PREPARED TESTIMONY. I WILL BE HAPPY TO ANSWER ANY QUESTIONS.